

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Implement the  
Commission's Procurement Incentive  
Framework and to Examine the Integration of  
Greenhouse Gas Emissions Standards into  
Procurement Policies

CPUC Rulemaking 06-04-009

CEC Docket 07-OIIP-01

**COMMENTS OF LODI GAS STORAGE, L.L.C.  
ON TYPE AND POINT OF REGULATION ISSUES  
FOR THE NATURAL GAS SECTOR**

James W. McTarnaghan  
**DUANE MORRIS LLP**  
One Market, Spear Tower Suite 2000  
San Francisco, CA 94105-1104  
Telephone: (415) 957-3088  
Facsimile: (415) 957-3001  
Email: [jwmctarnaghan@duanemorris.com](mailto:jwmctarnaghan@duanemorris.com)

**Attorneys for Lodi Gas Storage, L.L.C.**

Date: December 17, 2007

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Pursuant to the Administrative Law Judges' Ruling Requesting Comments On Type and Point of Regulation Issues for the Natural Gas Sector issued November 28, 2007 ("November 8, 2007 Ruling") and the Administrative Law Judges' Ruling Extending Deadline for Comments and Incorporating Responses to Staff Data Request on Natural Gas Issues, issued December 10, 2007 ("December 10, 2007 Ruling"), Lodi Gas Storage, L.L.C. ("LGS") here submits its comments on the issues raised and limited responses to the questions posed in the November 28, 2007 Ruling.

**I. GENERAL COMMENTS**

**A. Description of LGS as a Natural Gas Storage Provider**

LGS is an independent natural gas storage provider and is the owner and operator of the Lodi Gas Storage Facility in San Joaquin and Sacramento counties and the Kirby Hills Facility located in Solano County. Certificates of public convenience and necessity were granted for these facilities in D.00-05-048 and D.06-03-012 including complete CEQA review. LGS is required to comply with air quality standards contained in permits granted by the San Joaquin

Valley Air Pollution Control District for the Lodi Facility and the Bay Area Air Quality Management District for the Kirby Hills Facility.

In A.07-05-009, LGS has requested additional authority from the Commission to expand the Kirby Hills Facility. Environmental review has been completed by the CPUC as lead agency, and a decision is expected from the Commission in early 2008. LGS will again obtain all necessary permits from the Bay Area Air Quality Management District prior to operation. All facilities constructed by LGS reflect state-of-the-art technology and have consistently met the standards imposed by the air quality districts.

**B. As a Contract Storage Provider, LGS Lacks Control of Natural Gas Source or End Use**

By definition as a natural gas storage provider, LGS provides services to customers which elect to contract for storage capacity within the facilities as part of their supply strategies.<sup>1</sup> All natural gas is purchased by the customer upstream of LGS and title is held by the customer throughout the process. Further, natural gas delivered into LGS' facilities must be delivered via Pacific Gas & Electric Company (PG&E) to its interconnection with LGS prior to injection and all withdrawn natural gas must return to PG&E for additional transportation to the ultimate end users. Due to this mid-stream position, LGS does not know or in any way control the source of the natural gas or the use of the natural gas following withdrawal.<sup>2</sup> In this sense, the shipper's choice to move some gas directly to the end user and to store other gas with LGS before delivery to the end user does not have any impact on the use of gas or the greenhouse gas emissions resulting from the combustion of the natural gas.

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<sup>1</sup> This section responds generally to Questions 3.4, Q8.

<sup>2</sup> LGS, for example, does not know if gas stored in its facilities will be used for electricity generation and thus included in the electricity sector.

The concept of natural gas storage does not have a counterpart on the electric side. As discussed in LGS' November 14, 2007 Comments on Allowance Allocations in this proceeding, any calculation of emissions based on volumes of natural gas injected into and then withdrawn from storage facilities would result in double or triple counting of those volumes already addressed as transportation volumes and ultimately consumed volumes by the end user. As such, LGS submits that midstream services should not be identified as a point of regulation.<sup>3</sup>

### **C. Infrastructure Use of Natural Gas and Fugitive Emissions**

In the November 28, 2007 Ruling, issues were raised related to GHG emissions from operating the infrastructure used to deliver natural gas to end users within the State and fugitive emissions including from pipelines, storage facilities, and compressor stations.<sup>4</sup> To some extent, LGS has already responded to these questions in its November 14, 2007 Reply Comments in which it explained that if any additional regulation is imposed on infrastructure, newer and cleaner facilities should not be penalized for their investment in advanced technology.

LGS notes that, as compared to most other California utilities, infrastructure use by LGS is quite small and has carefully monitored emissions. In the December 6, 2007 responses to the CPUC data request, LGS identified such use, mostly associated with its compressors. In contrast, the quantities used by the major distribution companies dwarfed LGS' figures.

With this in mind, LGS believes that any controls placed on GHG emissions from its own infrastructure use should (a) take into account the comparatively small volumes and emissions and (b) avoid penalizing entities such as LGS which already have clean operations.

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<sup>3</sup> LGS also noted this issue in its Responses to the Data Requests included in the December 10, 2007 Ruling as Attachment H.

<sup>4</sup> Ruling p. 4, Q5(c) and (d)

Similarly, as noted in LGS' December 6, 2007 response to the data requests, LGS indicated that fugitive emissions were extremely small. As such, LGS submits that the administrative burden of calculating and administering any program would outweigh any limited reduction in emissions. LGS acknowledges that other entities with extensive distribution facilities may not have such limited fugitive emissions. Therefore, if a decision is made to treat fugitive emissions as a point source, LGS respectfully submits that a reasonable threshold level should be established to allow for smaller amounts, such as those associated with LGS, to be excluded from the program.

## **II. CONCLUSION**

As previously noted, natural gas storage providers, such as LGS, do not fit into the electric model given the lack of any parallel entity to a storage provider in the electricity system. Due to that, LGS recommends that point of regulation occur at either end of the gas system (i.e., at the processing plant or pipeline or at the delivery point from the local distribution system) rather than at mid-stream storage facilities. In addition, LGS encourages the Commission to consider excluding small users of natural gas for infrastructure purposes and to impose regulation on fugitive emissions only when such emissions exceed a meaningful threshold.

LGS appreciates the opportunity to provide these comments and reserves its rights to reply to comments made by other entities under the established procedural schedule.

Respectfully submitted,

By: /s/ James W. McTarnaghan  
James W. McTarnaghan

**DUANE MORRIS LLP**  
One Market, Spear Tower Suite 2000  
San Francisco, CA 94105-1104  
Telephone: (415) 957-3088  
Email: [jwmctarnaghan@duanemorris.com](mailto:jwmctarnaghan@duanemorris.com)  
Attorneys for Lodi Gas Storage, L.L.C.

Dated: December 17, 2007

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing, “**Comments of Lodi Gas Storage, L.L.C. on Type and Point of Regulation Issues for the Natural Gas Sector,**” by using the following service:

☒ **E-mail service:** sending the entire document as an attachment to twelve (12) e-mail messages, each addressed to 35 recipients, to all known parties of record to this proceeding who provided electronic mail addresses (see attached **Service List**).

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Executed this 17<sup>th</sup> day of December, 2007, at San Francisco, California.

/s/ Barbara A. Murphy  
Barbara A. Murphy

**Service List**  
**R.06-04-009**

cadams@covantaenergy.com  
steven.schleimer@barclayscapital.com  
steven.huhman@morganstanley.com  
rick\_noger@praxair.com  
keith.mccrea@sablauw.com  
ajkatz@mwe.com  
ckrupka@mwe.com  
lisa.decker@constellation.com  
cswoolums@midamerican.com  
kevin.boudreaux@calpine.com  
trdill@westernhubs.com  
ej\_wright@oxy.com  
pseby@mckennalong.com  
todil@mckennalong.com  
steve.koerner@elpaso.com  
jenine.schenk@apses.com  
jbw@slwplc.com  
kelly.barr@srpnet.com  
rrtaylor@srpnet.com  
smichel@westernresources.org  
roger.montgomery@swgas.com  
Lorraine.Paskett@ladwp.com  
ron.deaton@ladwp.com  
snewsom@semprautilities.com  
dhuard@manatt.com  
curtis.kebler@gs.com  
dehling@kling.com  
gregory.koiser@constellation.com  
npedersen@hanmor.com  
mmazur@3phasesRenewables.com  
vitaly.lee@aes.com  
tiffany.rau@bp.com  
klatt@energyattorney.com  
rhelgeson@scppa.org  
douglass@energyattorney.com  
pssed@adelphia.net  
akbar.jazayeri@sce.com  
annette.gilliam@sce.com  
cathy.karlstad@sce.com  
Laura.Genao@sce.com  
rkmoore@gswater.com  
dwood8@cox.net  
amsmith@sempra.com  
atrial@sempra.com  
apak@sempraglobal.com

dhecht@sempratrading.com  
[daking@sempra.com](mailto:daking@sempra.com)  
svongdeuane@semprasolutions.com  
troberts@sempra.com  
liddell@energyattorney.com  
marcie.milner@shell.com  
rwinthrop@pilotpowergroup.com  
tdarton@pilotpowergroup.com  
lschavrien@semprautilities.com  
GloriaB@anzaelectric.org  
llund@commerceenergy.com  
thunt@cecmail.org  
diane\_fellman@fpl.com  
jeanne.sole@sfgov.org  
john.hughes@sce.com  
llorenz@semprautilities.com  
marcel@turn.org  
nsuetake@turn.org  
dil@cpuc.ca.gov  
fjs@cpuc.ca.gov  
achang@nrdc.org  
rsa@a-klaw.com  
ek@a-klaw.com  
kgrenfell@nrdc.org  
mpa@a-klaw.com  
sls@a-klaw.com  
bill.chen@constellation.com  
bkc7@pge.com  
epoole@adplaw.com  
agrimaldi@mckennalong.com  
bcragg@goodinmacbride.com  
jsqueri@gmssr.com  
jarmstrong@goodinmacbride.com  
kbowen@winston.com  
lcottle@winston.com  
sbeatty@cwclaw.com  
vprabhakaran@goodinmacbride.com  
jkarp@winston.com  
jeffgray@dwt.com  
cjw5@pge.com  
ssmyers@att.net  
lars@resource-solutions.org  
alho@pge.com  
aweller@sel.com  
jchamberlin@strategicenergy.com

beth@beth411.com  
kerry.hattevik@mirant.com  
kowalewskia@calpine.com  
wbooth@booth-law.com  
hoerner@redefiningprogress.org  
janill.richards@doj.ca.gov  
cchen@ucsusa.org  
gmorris@emf.net  
tomb@crossborderenergy.com  
kjinnovation@earthlink.net  
bmcc@mccarthy-law.com  
sberlin@mccarthy-law.com  
Mike@alpinenaturalgas.com  
joyw@mid.org  
UHelman@caiso.com  
jjensen@kirkwood.com  
mary.lynch@constellation.com  
lrdevanna-rf@cleanenergysystems.com  
abb@eslawfirm.com  
mclaughlin@braunlegal.com  
glw@eslawfirm.com  
jluckhardt@downeybrand.com  
jdh@eslawfirm.com  
vwelch@environmentaldefense.org  
www@eslawfirm.com

westgas@aol.com  
scohn@smud.org  
atrowbridge@daycartermurphy.com  
dansvec@hdo.net  
notice@psrec.coop  
deb@a-klaw.com  
cynthia.schultz@pacificorp.com  
kyle.l.davis@pacificorp.com  
ryan.flynn@pacificorp.com  
carter@ieta.org  
jason.dubchak@niskags.com  
bjones@mjbbradley.com

kcolburn@symbioticstrategies.com  
rapcowart@aol.com  
Kathryn.Wig@nrgenergy.com  
sasteriadis@apx.com  
george.hopley@barcap.com  
ez@pointcarbon.com  
burtraw@rff.org  
vb@pointcarbon.com  
kyle\_boudreaux@fpl.com  
andrew.bradford@constellation.com  
gbarch@knowledgeinenergy.com

ralph.dennis@constellation.com  
smindel@knowledgeinenergy.com  
brabe@umich.edu  
bpotts@foley.com  
james.keating@bp.com  
Cynthia.A.Fonner@constellation.com  
jimross@r-c-s-inc.com  
tcarlson@reliant.com  
ghinners@reliant.com  
zaiontj@bp.com  
julie.martin@bp.com  
fiji.george@elpaso.com  
echiang@elementmarkets.com  
fstern@summitblue.com  
nenbar@energy-insights.com  
nlenssen@energy-insights.com  
bbaker@summitblue.com  
william.tomlinson@elpaso.com  
kjsimonsen@ems-ca.com  
Sandra.ely@state.nm.us  
bmcquown@reliant.com  
dbrooks@nevpc.com  
anita.hart@swgas.com  
randy.sable@swgas.com  
bill.schrand@swgas.com  
jj.prucnal@swgas.com  
sandra.carolina@swgas.com  
ckmitchell1@sbcglobal.net  
chilen@sppc.com  
emello@sppc.com  
tdillard@sierrapacific.com  
dsoyars@sppc.com  
jgreco@caithnessenergy.com  
fluchetti@ndep.nv.gov  
leilani.johnson@ladwp.com  
randy.howard@ladwp.com  
Robert.Rozanski@ladwp.com  
robert.pettinato@ladwp.com  
HYao@SemptraUtilities.com  
rprince@semprautilities.com  
rkeen@manatt.com  
nwhang@manatt.com  
pjazayeri@stroock.com  
derek@climaterestry.org  
david@nemtzw.com  
harveyederpspc.org@hotmail.com  
sendo@ci.pasadena.ca.us  
slins@ci.glendale.ca.us  
THAMILTON5@CHARTER.NET  
bjeider@ci.burbank.ca.us

rmorillo@ci.burbank.ca.us  
roger.pelote@williams.com  
aimee.barnes@ecosecurities.com  
case.admin@sce.com  
tim.hemig@nrgenergy.com  
bjl@bry.com  
aldyn.hoekstra@paceglobal.com  
ygross@sempraglobal.com  
jlaun@apogee.net  
kмкиener@fox.net  
scottanders@sandiego.edu  
jkloberdanz@semprautilities.com  
andrew.mcallister@energycenter.org  
jack.burke@energycenter.org  
jennifer.porter@energycenter.org  
sephra.ninow@energycenter.org  
dniehaus@semprautilities.com  
jleslie@luce.com  
ofoote@hkcf-law.com  
ekgrubaugh@iid.com

pepper@cleanpowermarkets.com  
gsmith@adamsbroadwell.com  
mdjoseph@adamsbroadwell.com  
hayley@turn.org  
mflorio@turn.org  
Dan.adler@calcef.org  
mhyams@sflower.org  
tburke@sflower.org  
norman.furuta@navy.mil  
amber@ethree.com  
annabelle.malins@fco.gov.uk  
dwang@nrdc.org  
filings@a-klaw.com  
nes@a-klaw.com  
obystrom@cera.com  
sdhilton@stoel.com  
scarter@nrdc.org  
abonds@thelen.com  
cbaskette@enernoc.com  
colin.petheram@att.com  
jwmctarnaghan@duanemorris.com  
kfox@wsgr.com  
kkhoja@thelenreid.com  
pvallen@thelen.com  
spauker@wsgr.com  
rreinhard@mofo.com  
cem@newsdata.com  
hgolub@nixonpeabody.com  
jscancarelli@flk.com

jwiedman@goodinmacbride.com  
mmattes@nossaman.com  
jen@cnt.org  
lisa\_weinzimer@platts.com  
steven@moss.net  
sellis@fypower.org  
arno@recurrentenergy.com  
ELL5@pge.com  
gxl2@pge.com  
jxa2@pge.com  
JDF1@PGE.COM  
RHHJ@pge.com  
sscb@pge.com  
svs6@pge.com  
S1L7@pge.com  
vjw3@pge.com  
karla.dailey@cityofpaloalto.org  
farrokh.albuyeh@oati.net  
dtibbs@aes4u.com  
jhahn@covantaenergy.com  
andy.vanhorn@vhcenergy.com  
Joe.paul@dynegy.com  
info@calseia.org  
gblue@enxco.com  
sbeserra@sbcglobal.net  
monica.schwebs@bingham.com  
phanschén@mofo.com  
josephhenri@hotmail.com  
pthompson@summitblue.com  
dietrichlaw2@earthlink.net  
Betty.Seto@kema.com  
JerryL@abag.ca.gov  
jody\_london\_consulting@earthlink.net  
steve@schiller.com  
mrw@mrwassoc.com  
rschmidt@bartlewells.com  
adamb@greenlining.org  
stevek@kromer.com  
clyde.murley@comcast.net  
brenda.lemay@horizonwind.com  
carla.peterman@gmail.com  
elvine@lbl.gov  
rhwisner@lbl.gov  
C\_Marnay@1b1.gov  
philm@scdenergy.com  
rita@ritanortonconsulting.com  
cpechman@powereconomics.com  
emahlon@ecoact.org  
richards@mid.org  
rogerv@mid.org

tomk@mid.org  
fwmonier@tid.org  
brbarkovich@earthlink.net  
johnrredding@earthlink.net  
clark.bernier@rlw.com  
rmccann@umich.edu  
cmkehrein@ems-ca.com  
e-recipient@caiso.com  
grosenblum@caiso.com

rsmutny-jones@caiso.com  
saeed.farrokhpay@ferc.gov  
david@branchcomb.com  
kenneth.swain@navigantconsulting.com  
kdusel@navigantconsulting.com  
gpickering@navigantconsulting.com  
lpark@navigantconsulting.com  
davidreynolds@ncpa.com  
scott.tomashefsky@ncpa.com  
ewolfe@resero.com  
Audra.Hartmann@Dynergy.com  
Bob.lucas@calobby.com  
curt.barry@iwpnews.com  
danskopec@gmail.com  
dseperas@calpine.com  
dave@ppallc.com  
dkk@eslawfirm.com  
wynne@braunlegal.com  
kgough@calpine.com  
kellie.smith@sen.ca.gov  
kdw@woodruff-expert-services.com  
mwaugh@arb.ca.gov  
pbarthol@energy.state.ca.us  
pstoner@lgc.org  
rachel@ceert.org  
bernardo@braunlegal.com  
steven@lipmanconsulting.com  
steven@iepa.com  
wtasat@arb.ca.gov  
etiedemann@kmtg.com  
ltenhope@energy.state.ca.us  
bushinskyj@pewclimate.org  
lmh@eslawfirm.com  
obartho@smud.org  
bbeebe@smud.org  
bpurewal@water.ca.gov  
dmacmll@water.ca.gov  
kmills@cbbf.com  
karen@klindh.com  
ehadley@reupower.com

Denise\_Hill@transalta.com  
sas@a-klaw.com  
egw@a-klaw.com  
akelly@climatetrust.org  
alan.comnes@nrgenergy.com  
kyle.silon@ecosecurities.com  
californiadockets@pacificorp.com  
Philip.H.Carver@state.or.us  
samuel.r.sadler@state.or.us  
lisa.c.schwartz@state.or.us  
cbreidenich@yahoo.com  
dws@r-c-s-inc.com  
jesus.arredondo@nrgenergy.com  
charlie.blair@delta-ee.com  
karen.mcdonald@powerex.com  
clarence.binninger@doj.ca.gov  
david.zonana@doj.ca.gov  
agc@cpuc.ca.gov  
aeg@cpuc.ca.gov  
blm@cpuc.ca.gov  
cf1@cpuc.ca.gov  
cft@cpuc.ca.gov  
tam@cpuc.ca.gov  
dsh@cpuc.ca.gov  
edm@cpuc.ca.gov  
cpe@cpuc.ca.gov  
hym@cpuc.ca.gov  
hs1@cpuc.ca.gov  
jm3@cpuc.ca.gov  
jnm@cpuc.ca.gov  
jbf@cpuc.ca.gov  
jk1@cpuc.ca.gov  
jst@cpuc.ca.gov  
jtp@cpuc.ca.gov  
jol@cpuc.ca.gov  
jci@cpuc.ca.gov  
jf2@cpuc.ca.gov  
krd@cpuc.ca.gov  
lrm@cpuc.ca.gov  
litt@cpuc.ca.gov  
mjd@cpuc.ca.gov  
ner@cpuc.ca.gov  
pw1@cpuc.ca.gov  
psp@cpuc.ca.gov  
pzs@cpuc.ca.gov  
rmm@cpuc.ca.gov  
ram@cpuc.ca.gov  
smk@cpuc.ca.gov  
sgm@cpuc.ca.gov  
svn@cpuc.ca.gov

scr@cpuc.ca.gov  
tcx@cpuc.ca.gov  
ken.alex@doj.ca.gov  
ken.alex@doj.ca.gov  
bdicapo@caiso.com  
jsanders@caiso.com  
jgill@caiso.com

ppettingill@caiso.com  
mscheibl@arb.ca.gov  
epowers@arb.ca.gov  
jdoll@arb.ca.gov  
pburmich@arb.ca.gov

bblevins@energy.state.ca.us  
dmetz@energy.state.ca.us  
deborah.slom@doj.ca.gov  
dks@cpuc.ca.gov  
kgriffin@energy.state.ca.us  
ldecarlo@energy.state.ca.us  
mpryor@energy.state.ca.us  
mgarcia@arb.ca.gov  
pduvair@energy.state.ca.us  
wsm@cpuc.ca.gov  
hurlock@water.ca.gov  
hcronin@water.ca.gov  
rmiller@energy.state.ca.us

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